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UPPER CANADA MINES LIMITED

40TH ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31st 1969



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UPPER CANADA MINES LIMITED

REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 31st DECEMBER, 1969

DIRECTORS

THOS. J. DAY, Q.C.
J. W. McBEAN
J. A. W. BROWN
J. H. BOTSFORD
E. T. DONALDSON
G. F. DAY
K. H. LARKIN

OFFICERS

THOS. J. DAY, Q.C., *President*
J. W. McBEAN, *Vice-President and Managing Director*
K. H. LARKIN, *Secretary-Treasurer*

TRANSFER AGENTS

CROWN TRUST COMPANY, Toronto, Ont.
BANKERS TRUST COMPANY, New York, N.Y.

AUDITORS

CLARKSON, GORDON & Co., Toronto, Ont.

HEAD OFFICE

250 University Avenue, Toronto, Ont.

MINE OFFICE

Dobie, Ontario

UPPER CANADA MINES LIMITED

Report of the Directors

TO THE SHAREHOLDERS:

In my last report to the Shareholders, I advised that much work remained to be done to explore and develop the lower "L" zone and to sink the Number One shaft below the 6100 foot level to 7000 feet, to develop the good ore indicated below that level.

Some preparations were made for shaft sinking, but after serious consideration, it was decided to postpone this development work which would have entailed a very substantial capital outlay by the Company. Several reasons prompted this decision by the Company, one of which was the uncertainty of the Emergency Gold Mining Assistance Act beyond 1970.

Our auditors have requested that the Company change its accounting practice in order to comply with requirements of the Canadian Institute of Chartered Accountants. Our consolidated statement of income shows a net income for the year of \$1,062,549. I feel I should point out that in our actual operations, there was no net profit, but rather an operating loss of \$75,710, the difference being accounted for by the sale of a portion of our investment in Bankeno Mines Limited less a write-down of mining properties.

I am pleased to report that new ore is still being developed at the Upper Beaver mine. Exploration and development work will be prosecuted vigorously and, while no assistance is received for the gold produced, the copper content of the ore substantially enhances its value.

Mr. J. A. W. Brown has advised the Company that for reasons of health, he does not wish to

stand for re-election to the Board. Mr. Brown has been associated with the Company since its inception. He acted as resident manager during 1938, and supervised the building of the office and mining plant. He was also in charge of the construction of the Upper Canada mill and staff house. I wish to formally express the appreciation of the Board of Directors to Mr. Brown for the services he has rendered to the Company. His presence will be sorely missed by the Board.

Immediately prior to the Annual Meeting, a Special Meeting of Shareholders is being convened to consider, and if approved, confirm an agreement entered into by the Company to purchase the Heath & Sherwood group of companies. To implement this agreement, an increase in the authorized capital of the Company and an expansion of the Board of Directors will be required. It is apparent from my earlier remarks that the mining operation of Upper Canada at its present properties is generating marginal profit. In my report of last year, I expressed concern over increasing expenses set against the fixed price of gold. We have just completed labour negotiations providing for higher wages, and now find the situation even more acute. Unless there is a substantial increase in the price of gold in the near future, it appears that our mining operation at the Upper Canada mine will not continue much longer.

This has been causing your officers and directors some concern. The Company has been very fortunate with our investment in Bankeno Mines Limited. Had we not taken on and developed this investment, the future of the Company would be very bleak indeed. Naturally we are most interested in seeing to the successful continuation of Upper

Canada's activities and further expansion and growth.

This concern is alleviated in large part by the prospect of acquiring the Heath & Sherwood group of companies. Particulars of the proposed acquisition are set out in the accompanying Information Circular. It is hoped that this acquisition will convert the present marginal profit from operations into steady and dynamic increased earnings over the long term.

Mr. J. W. McBean, the chief executive officer of the Heath & Sherwood companies, was associated with Upper Canada for many years as our resident geologist. It was in large part through his efforts that the complex geological structures of Upper Canada were solved. In 1951, Mr. McBean left the services of Upper Canada to take over a very small drilling company known as Heath & Sherwood, which, as will be seen from the Information Circular accompanying this report, has been extraordinarily successful. When I assumed the Presidency in 1957, I requested Mr. McBean to take over the position of managing director. It was Mr. McBean who interested Cominco in Bankeno's lead-zinc discovery on Little Cornwallis Island, and later in Bankeno's oil and gas holdings. He was instrumental in bringing about the Panarctic consortium, and is a director of Panarctic Oils Limited.

Your directors have engaged Woods, Gordon & Co., Management Consultants, to advise as to the

reasonableness of the consideration receivable by your Company. Included in the Company's Information Circular is the conclusion of the report of Woods, Gordon & Co., dated May 28, 1970.

Upon completion of the acquisition of the Heath & Sherwood group of companies, Upper Canada should have a continuing income and a participation in a strong, virile, expanding new business. I would call your attention to the fact that this business is closely allied to the mining and oil industry, and therefore, on this count, an appropriate type of investment for your Company. It is the intention of the present Board of Directors that Upper Canada continue to participate in attractive Canadian ventures, and that the Heath & Sherwood companies continue their operations under their present corporate structures and management, distinct and separate from Upper Canada's mining operations.

I wish to thank the directors, officers and staff of the Company for their loyal and tireless efforts on your behalf.

T. J. DAY,
President.

June 2, 1970,
Toronto, Ontario.

UPPER CANADA
*(Incorporated under
 and its wholly-owned
 UPPER BEAVER)*

Consolidated

December

(with comparative figures)

ASSETS

CURRENT:

	1969	1968
Cash	\$ 259,207	\$ 341,795
Chartered bank deposit receipts plus accrued interest	1,908,470	1,100,000
Guaranteed investment certificate		46,663
Bullion on hand and in transit, at net realizable value	127,218	158,354
Concentrate at smelter and in transit, at estimated net amount receivable	452,546	458,504
Accounts receivable	7,657	16,042
Income tax recoverable (note 2)		19,500
Mining tax recoverable	4,399	2,667
Emergency Gold Mining Assistance receivable (note 2)	276,508	340,099
Mining and milling supplies, at cost (note 3)	354,571	331,995
Prepaid expenses	51,609	32,249
Total current assets	<u>3,442,185</u>	<u>2,847,868</u>

INVESTMENTS, at cost:

Subsidiary companies — partly owned (note 1) —		
Shares (unlisted)	17,441	17,441
Advances	32,055	29,516
Other mining companies —		
Shares (market value 1969 — \$6,952,521; 1968 — \$8,496,072) (note 4)	921,100	711,600
Government of Canada bonds plus accrued interest (market value — \$25,185)	31,030	
	<u>1,001,626</u>	<u>758,557</u>

FIXED:

Buildings and equipment, at cost	2,761,143	2,661,480
Less accumulated depreciation	2,575,652	2,500,695
	<u>185,491</u>	<u>160,785</u>
Mining properties (note 5)	117,959	487,552
Interest in Arctic Islands holdings, at cost (note 6)	160,000	
Real estate, at cost	43,141	43,141
	<u>506,591</u>	<u>691,478</u>

OTHER:

Deposit with the Hydro-Electric Power Commission of Ontario, at cost plus accrued interest		30,328
Shaft sinking and deferred development, at cost less amortization	141,497	11,972
Special refundable tax	10,779	15,348
	<u>152,276</u>	<u>57,648</u>
	<u>\$5,102,678</u>	<u>\$4,355,551</u>

AUDITORS

To the Shareholders of
UPPER CANADA MINES LIMITED:

We have examined the consolidated balance sheet of Upper Canada Mines Limited and its wholly-owned subsidiary company, Upper Beaver Mines Limited, as at December 31, 1969 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada,
 April 7, 1970. (May 8, 1970 as to notes 4 and 8 (ii))

MINES LIMITED

the laws of Ontario)
subsidiary company
MINES LIMITED

Balance Sheet

31, 1969

as at December 31, 1968)

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT:	1969	1968
Accounts payable and accrued charges	\$ 327,487	\$ 277,866
Income tax payable	54,855	
Deferred mining tax	34,500	60,000
Accrued royalty (note 5(i))		219,407
Total current liabilities	<u>416,842</u>	<u>557,273</u>
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized:		
3,500,000 shares of \$1.00 each		
Issued and fully paid:		
3,499,827 shares	3,499,827	3,499,827
Less discount on shares	<u>2,329,928</u>	<u>2,329,928</u>
	1,169,899	1,169,899
Paid in surplus	75,227	75,227
Retained earnings (note 2)	3,440,710	2,553,152
Total shareholders' equity	<u>4,685,836</u>	<u>3,798,278</u>

On behalf of the Board:

T. J. DAY, Director.

J. W. McBEAN, Director.

(See accompanying notes)

\$5,102,678 \$4,355,551

REPORT

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in method of computing net income as explained in note 3 to the financial statements.

CLARKSON, GORDON & CO.,
Chartered Accountants.

UPPER CANADA MINES LIMITED

and its wholly-owned subsidiary company

UPPER BEAVER MINES LIMITED

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31, 1969

(with comparative figures for the year ended December 31, 1968)

	1969			1968		
Tons of ore milled	189,870	Per ton ore milled		208,392	Per ton ore milled	
Revenue from metal sales	<u>\$3,160,068</u>	\$ 16.64		<u>\$3,367,184</u>	\$ 16.18	
Less smelter charges, freight and marketing charges	<u>196,012</u>	.98		<u>220,158</u>	1.08	
	<u>2,964,056</u>	15.66		<u>3,147,026</u>	15.10	
EXPENDITURES:						
Ore transportation	32,565			35,831		
Exploration	188,339			241,221		
Development	448,717			404,914		
Mining	1,884,014			1,923,093		
Milling	407,556			394,033		
General mine office expenses	190,921			221,440		
Administration and head office expenses	<u>164,911</u>			<u>155,296</u>		
	<u>3,317,023</u>			<u>3,375,828</u>		
Less Emergency Gold Mining Assistance	<u>406,373</u>	<u>2,910,650</u>	<u>15.38</u>	<u>496,780</u>	<u>2,879,048</u>	<u>13.81</u>
	<u>53,406</u>	<u>.28</u>		<u>267,978</u>		<u>1.29</u>
OTHER INCOME:						
Gain on disposal of fixed asset	1,546					
Investment income	<u>129,679</u>	<u>131,225</u>	<u>.69</u>	<u>23,289</u>	<u>23,289</u>	<u>.11</u>
	<u>184,631</u>	<u>.97</u>		<u>291,267</u>		<u>1.40</u>
Ontario Mining Tax (expense) recoverable	27,899	.15		(4,133)		(.02)
Income before the following:						
Depreciation	79,262			68,802		
Amortization of shaft sinking and deferred development costs	61,265			58,371		
Provision for royalty (note 5(i))	62,635			87,153		
Outside exploration	<u>5,751</u>	<u>208,913</u>	<u>1.10</u>	<u>10,354</u>	<u>224,680</u>	<u>1.08</u>
	<u>3,617</u>	<u>.02</u>		<u>62,454</u>		<u>.30</u>
Income taxes						
Income (loss) before extraordinary items:	<u>79,327</u>	<u>(.42)</u>				
	<u>(75,710)</u>	<u>\$ (.40)</u>				
EXTRAORDINARY ITEMS:						
Gain on sale of shares of Bankeno Mines Limited (note 3)	1,625,810			1,034,500		
Consideration for guarantee of sub- scription by Bankeno Mines Limited for capital stock of Pan- arctic Oils Limited (note 3)						32,500
Write-down of mining properties (note 5(ii))	<u>(487,551)</u>					
Net income for year (note 7)	<u>\$1,062,549</u>			<u>\$1,129,454</u>		

(See accompanying notes)

UPPER CANADA MINES LIMITED

and its wholly-owned subsidiary company
UPPER BEAVER MINES LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended December 31, 1969
(with comparative figures for the year 1968)

	1969	1968
Working capital at beginning of year	<u>\$2,290,595</u>	<u>\$1,189,272</u>
SOURCE OF FUNDS:		
Operations —		
Net income for year	1,062,549	1,129,454
Add expenses not requiring an outlay of funds:		
Depreciation	79,262	68,802
Amortization of shaft sinking and deferred development costs	61,265	58,371
Write-down of mining property (note 5(ii))	487,551	
Total funds from operations	<u>1,690,627</u>	<u>1,256,627</u>
Deposit with Hydro-Electric Power Commission	30,328	
Recovery of advances to other mining companies		20,982
Refund of special refundable tax	4,569	13,844
Total	<u>1,725,524</u>	<u>1,291,453</u>
APPLICATION OF FUNDS:		
Payment of dividends	174,991	104,995
Shaft sinking and deferred development costs	190,790	59
Purchase of fixed assets (net)	103,968	29,241
Advances to subsidiary companies	2,539	3,378
Purchase shares in other mining companies (net)	209,500	33,000
Government of Canada bonds	31,030	
Purchase of mining properties (note 5(i))	117,958	
Purchase of interest in Arctic Islands holdings (note 6)	160,000	
Adjustment of 1965 Emergency Gold Mining Assistance (note 2)		19,457
	<u>990,776</u>	<u>190,130</u>
Increase in working capital	734,748	1,101,323
Working capital at end of year	<u>\$3,025,343</u>	<u>\$2,290,595</u>

(See accompanying notes)

- (ii) Because of the uncertainty of the continuation of Emergency Gold Mine Assistance beyond December 31, 1970 and because the estimated life of the Upper Canada mine based on proven ore reserves approximates eighteen months, the Upper Canada mining properties have been written down during the year to \$1. The amount of the write-down (\$487,551) has been charged to income as an extraordinary item.

6. INTEREST IN ARCTIC ISLANDS HOLDINGS

During the year the company acquired a 5% interest in the petroleum and natural gas holdings of Bankeno Mines Limited in the Arctic Islands for a cash consideration of \$160,000.

7. INCOME TAXES

It is estimated that tax deductions of \$948,000, resulting from the carry-forward of losses for tax purposes of \$348,000 and capital cost allowances claimed to date for tax purposes of \$600,000 less than depreciation recorded in the accounts, will be available to the company to the extent of earnings in future years. Tax deductions as a result of loss carry-forwards will expire as follows:

1973	\$ 93,000
1974	255,000
	<u>\$ 348,000</u>

Tax deductions as a result of capital cost allowances will not expire until the allowances are claimed.

Preproduction expenses and shaft sinking costs written off in the accounts of the wholly-owned subsidiary, have been used to reduce income taxes otherwise payable by approximately \$20,100 (\$34,000 in 1968).

It is estimated that additional tax reductions of approximately \$20,400 computed at current income tax rates will be available to the wholly-owned subsidiary to the extent of earnings in future years as a result of preproduction expenses recorded in the accounts to December 31, 1969 in excess of amounts claimed for tax purposes to that date.

8. SUBSEQUENT EVENTS AND CONTINGENT LIABILITY

- (i) Subsequent to the year end the company made a \$200,000 9% demand loan to Bankeno Mines Limited to enable Bankeno to meet its additional commitments to Panarctic Oils Limited.
- (ii) By agreement dated May 8, 1970 the company agreed, subject to certain conditions laid out in the agreement being met including approval of the transaction by the shareholders of the respective companies, to purchase all the outstanding shares of Glengarry Forest Products Limited, Heath & Sherwood Drilling Limited and Heath & Sherwood Drilling (Eastern) Limited in consideration for \$3,600,000 to be satisfied by the issue of 1,800,000 shares of the company.

In contemplation of the completion of the transaction the company will apply for Supplementary Letters Patent increasing its authorized capital from 3,500,000 shares to 5,500,000 shares.

- (iii) Pension costs are charged to operations as payments are made to the pension fund by the company. At December 31, 1967 (the date of the latest actuarial report) the unfunded past service pension liability amounted to approximately \$121,500 and this liability is being funded over a maximum period of ten years.

9. REMUNERATION OF DIRECTORS AND OFFICERS

Direct remuneration to directors and senior officers (as such are defined under the Corporations Act, Ontario) by the company and its subsidiary amounted to \$103,966.

UPPER CANADA MINES LIMITED

General Manager's Report

Dobie, Ontario,
May 14, 1970.

Mr. T. J. Day, President,
UPPER CANADA MINES LIMITED,
250 University Avenue,
Suite 600,
Toronto 1, Ontario.

Dear Sir:

The following report, covering operations for the twelve months ending December 31, 1969, is submitted for your approval. Major items are as follows:

The net value of metals from the Upper Canada and Upper Beaver Mines was \$2,964,056.00. Cost Aid amounted to \$406,373.00, making a total revenue from mining operations of \$3,370,429.00, compared with \$3,643,806.00 in 1968.

The Upper Canada Mine produced 127,573 tons, grading \$11.96 per ton at \$35.00 gold; Upper Beaver Mine produced 62,297 tons averaging 1.29% copper and \$8.41 per ton in gold.

SUMMARY OF GROSS PRODUCTION

	Gold oz.	Silver oz.	Copper lbs.
Upper Canada Mine	39,549.683	13,849.46	—
Upper Beaver Mine	13,612.782	9,191.26	1,530,999
TOTAL	53,132.465	23,040.72	1,530,999

SUMMARY OF PRICES RECEIVED FOR METALS

	Gold oz.	Silver oz.	Copper lbs.
Upper Canada Mine	\$ 37.68	\$ 1.92	—
Upper Beaver Mine	42.25	1.92	\$ 0.707

Upper Canada Mine received an additional \$10.275 per ounce of gold in Cost Aid.

UPPER CANADA MINE:

Mine production of 127,573 tons at \$11.96 is 18,734 tons lower than in the preceding year, due to the acute shortage of labour which affected every stage of the operation.

As reported in the preceding annual report, deep diamond drilling below the 6150 level indicated that the 'L' zone ore bodies re-occurred with no decrease in grade.

Preparations for deepening No. 1 shaft an additional 900 feet to establish 6 new levels to the 7050 ft. horizon were completed during the year, but because of the uncertain future of Cost Aid, and the sharp drop in the free market price of gold, this project has been indefinitely postponed.

Also for economic reasons, development of the 'C' zone below the 2750 ft. level is postponed, although deep diamond drilling to gain more information on this area is continuing.

Development footages and production by levels are tabulated below:

Development and Production Summary — 1969

Ore Reported @ \$35.00 Gold:

Level	Lineal Ft. Drifting	Ore Developed by Drifting			Tons Milled from Lateral		
		Length Feet	Width Feet	Est. Stope Grade	Tons	Development Grade	Value
2625 C	60.0				562	\$ 8.47	\$ 4,758.00
3475	65.0	62.0	4.8	\$ 8.91	406	5.82	2,361.00
3625	61.0	32.0	5.4	9.99	205	6.74	1,382.00
3775	110.0				309	7.29	2,254.00
5100					26	9.15	238.00
5250	316.5	171.0	5.4	10.33	1,020	11.24	11,469.00
5400	13.5				189	7.78	1,470.00
5550	343.5	132.0	5.2	9.37	1,568	12.31	19,300.00
5700	6.0				516	8.59	4,434.00
5850	212.0						
6000	198.5						
6150	183.5						
TOTAL	1,569.5	397.0	5.2	\$ 9.78	71	2.58	183.00
					4,872	\$ 9.82	\$47,849.00

Development Footages:

Mine Production:

	Tons	Grade	Value
Surface - 1750	—	—	—
1750 - 2750	23,363	\$ 8.93	\$ 208,712.00
2750 - 3625	4,600	10.60	48,762.00
3625 - 4800	22,077	11.70	258,209.00
4800 - 6300	77,533	13.03	1,010,106.00
TOTAL MINE	127,573	\$ 11.96	\$ 1,525,789.00

UPPER BEAVER MINE:

The lower levels continued to respond favourably to exploration and development. In order to increase the rate of development and to provide for additional mill tonnage, a 750 cfm. compressor was installed, an ore pass system was provided at the No. 1 Shaft, and the surface change house was enlarged.

Development footages and production by levels are tabulated below:

Development and Production Summary — 1969

Ore Reported @ \$35.00 Gold:

Level	Lineal ft. Drifting	Ore Developed by drifting				Tons milled from Lateral Development		
		Length Feet	Width Feet	Est. stope Au.	grade % Cu.	Tons	Grade Au.	% Cu.
80	95.0	35	3.0	\$ 19.25	.20	338	\$ 8.05	.20
200	375.5	268	3.8	13.65	.48	1,188	12.60	.41
350	359.5	165	3.2	16.80	.72	1,394	5.60	.54
500	93.0	—	—	—	—	59	6.30	.90
625	161.0	65	3.0	9.10	.81	382	9.45	.65
750	146.5	100	3.0	12.95	.29	455	13.30	.26
875	316.0	290	7.0	5.25	2.00	1,652	5.25	2.29
1000	89.0	50	3.0	3.50	1.50	186	6.65	1.34
1125	342.0	205	4.1	12.95	.76	1,193	7.00	1.00
1250	129.0	45	4.0	7.00	1.40	320	3.50	.67
TOTAL	2,106.5	1,223	4.4	\$ 10.15	1.18	7,167	\$ 7.66	1.00

Development Footages:

Crosscuts & Stations	1,619.5
Drifts	2,106.5
Raises	697.3
Diamond Drilling — surface	—
Diamond Drilling — underground	27,698.00

Mine Production:

Level	Tons	Au.	Grade % Cu.
80	629	\$ 12.46	.32
200	20,115	9.45	1.24
350	18,944	7.52	1.38
500	3,841	8.50	1.35
625	4,757	8.57	1.04
750	3,855	8.42	1.11
875	3,381	7.91	2.10
1000	674	4.82	1.57
1125	4,343	8.25	1.09
1250	1,758	6.87	.87
TOTAL	62,297	\$ 8.41	1.29

MILLING:

The Upper Canada gold circuit averaged 349.5 tons per day. Mill heads were \$11.96, tails were \$0.901 and recovery was 92.47%. The mill operated 90.48% of total possible running time.

The Upper Beaver flotation circuit averaged 170.7 tons per day, producing 3,072.56 dry tons of concentrate grading 3.91 ounces of gold per ton, 2.48 oz./ton silver and 24.91% copper. An additional 1,606.087 ounces of gold were recovered from treatment of flotation tailings in the Upper Canada cyanide circuit. Recovery was 94.04% of the gold and 95.30% of the copper. The mill operated 94.90% of total possible running time.

In preparation for handling increased tonnage from the Upper Beaver Mine, a 5' x 8' Hardinge mill was installed, replacing a 5' x 16' tube mill formerly used on the Upper Canada gold circuit before Upper Beaver was put into production. This grinding unit can now be returned to the Upper Canada circuit to increase production or extraction.

GENERAL:

The shortage of labour is the main reason for the drop in tonnage with a corresponding drop in profits. While we have faced with this problem for several years, with development and maintenance suffering accordingly, this is the first year that we have been unable to maintain mill tonnage. Profits are also down due to the increased cost of supplies and labour.

A two-year agreement has been signed with the United Steelworkers of America, granting a 12 cents per hour wage increase in the first year with an additional 10 cents per hour in the second year. The estimated cost of this increase for 1970 will be over \$110,000.00.

The continued support of yourself, the Directors, the Mine Staff and employees is gratefully acknowledged.

Yours faithfully,

J. H. BOTSFORD,
General Manager.

UPPER CANADA MINES
LIMITED
40TH ANNUAL REPORT
1969